

Executive Registry

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Mr. Stewart, Gentlemen:

Before coming here today, I had the opportunity of leafing through several of your pamphlets, and I was particularly struck with your 1957 Annual Report, entitled, "The Challenge of New Technologies". In the first pages of that report, you set forth very clearly one aspect of the story of American Industry, and I quote: "The story of the changing technologies lies in the development and marketing of new products and processes. Such products and processes have been an important factor contributing to the long-term growth of manufacturing output, which in turn has made possible high levels of living and increased leisure. Unquote. I assume that you have another aspect of your goal -- the important one of protecting the many things we as a country have already accomplished. This focus is directly opposite to the one being posed by Communism today.

Forty years ago, a small group of Communist revolutionary leaders came to power in Russia. Their initial goal was to gain

Internal control of the Soviet Union. Their inevitable long-run objective, and in fact, their announced objective, is to gain world domination. Communism today is a force striving constantly for the emergence of a "sovietized" world order -- in other words, the liquidation of capitalism.

By 1928, Stalin had won the internal power struggle. In that year, the First Five-Year Plan was launched. The central theme of Soviet economic policy which has remained unchanged is forced-draft industrialization. Stalin himself publicly proclaimed the reason for the emphasis within its industrialization, on the development of heavy industry. Russia, he said, had been beaten many times in the past because of its backwardness. For its own sake, Russia must make good the distance it was lagging behind the advanced capitalistic nations. Only then, he concluded, would it be possible to devote resources to improving living standards.

Since 1928, the Soviet Union has developed rapidly from a predominantly agricultural, industrially underdeveloped country

to unquestioned rank as the second largest economy in the world.

Forced-draft industrialization continues. Its reflection in military strength has, of course, been continued far beyond the levels needed to guarantee internal control and the protection of the Soviet borders.

A Communist military machine has been forged by Soviet heavy industry which is capable of augmenting by direct military action, Soviet ideological and revolutionary subversion elsewhere in the world.

The Kremlin leadership has recently added a new reason for maintaining rapid economic growth as the overriding priority. Khrushchev has announced the goal of catching-up and surpassing the United States in per capita production within the shortest possible historical period. This theme, this commitment, has been used not only as internal propaganda, but also as a necessary cornerstone to propagate the Soviet faith abroad.

Where do the Soviets stand in the economic race to which they have become dedicated and committed? First, let's compare the size of the two economies, the United States and the Soviet Union, in

In terms of total production of goods and services, or as the economists say, in terms of gross national product (GNP). The Soviet GNP in 1950, was about 33 percent of that of the United States. By 1956, it had increased to 39 percent. And by 1962, it should be about 47 percent of the size of the U. S. GNP. This means that the Soviet economy has been growing. It is expected to continue to grow, and at a rate roughly twice that of the United States. The Soviet rate of growth is exceedingly high. It has rarely been matched in capitalistic states, except during limited periods of postwar rebuilding.

How do the Soviets do it? First of all, the Soviet economy is one where virtually all means of production are state-owned. Far more important than who owns what, however, is the use to which economic resources are put. In the Soviet Union, the economy is used to serve the purposes of the state, not the people. The Communist leaders decide the objectives they wish to achieve and then proceed to do so through a mechanism of very detailed plans and rigid controls over resource allocation. Given the objective of maximizing economic

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growth, Investment is given a very high priority. Consumption is tolerated only to the extent necessary.

Soviet priorities are reflected in the relative efficiency of various sectors of the economy. The Soviets are most efficient in the production of military equipment and as producers of durable goods. They are least efficient in agriculture and in the production of consumer goods. In attaining so fast an industrial development, the Soviets have "skimmed the cream" from the top of their economy. For example, they have mined the richest deposits of iron at Krivoy Rog (Krie-voy Rog), and the most readily available coal seams of the Ukraine. They have pocketed the "windfall" benefits of the increase in productivity to be achieved in converting from a handicraft to a manufacturing economy. By curbing food consumption, they have been able to transfer large number of farm laborers to the cities to run their new factories.

This is not to suggest, however, that the Soviet Union is a country without economic headaches. Production of agricultural

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products leaves no margin for safety. The Soviet Union has reached a point where it is little more than feeding itself. It is no longer possible, until they somehow raise the productivity levels of Soviet farm labor, to divert much additional manpower from agriculture to labor-hungry industry. Furthermore, the Soviets have come into the time period when the low birth rate of the war years is being reflected in fewer workers entering the labor force. Labor productivity, including agricultural labor, must be increased rapidly if their ambitious goals of economic growth are to be met. Right now, the Soviet Union is scraping the bottom of its labor barrel. Incidentally, it is probable that announced reductions in Soviet military manpower are directly associated with this condition, rather than a sincere desire for disarmament.

Thus, despite the Soviet successes in priority efforts and their buoyant propaganda, they have come face-to-face with serious economic problems. Some raw materials have been in short supply, which I shall mention later on. The labor pool has been reduced.

Military demands for advanced and costly weapons systems have been

pressing. It has been necessary to increase allocation to research and development. The heavy demands for investment goods have shown no signs of abating. In addition, their internal situation has dictated that greater recognition be given to consumer needs in the form of more and better food, improved housing, and increased supplies of consumer durables. Further, the Soviets have had to reckon with world opinion and discontent in its European satellites. The initial punitive Soviet reparations policy, and the thinly disguised economic exploitation of the satellites, have had to be replaced with costly programs to support the tottering economies of these countries and sustain their populations.

The Soviets have embarked on a two-pronged attack to meet the productivity system. They have programs of direct investment in industry and agriculture on the one hand, and a number of programs designed to increase worker incentives on the other.

With respect to industry, they have cleared the way for the suggestions and adoption of technological improvements by economic ministries and plant managers by renouncing two points of Communist

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dogma. The old thesis that obsolescence is peculiar to capitalism has been scrapped. Under this old dogma, it was contradictory to Communist doctrine for a plant manager, for example, to suggest scrapping inefficient machinery until it was finally beyond repair. This, of course, was the Communist way of rationalizing their inability at that point in time to modernize their industrial plants. The situation has changed and so has the dogma. They have also openly abandoned the notion that Soviet excellence made a study of capitalistic accomplishment unnecessary and even unpatriotic. That old policy, part of a broader campaign against "kowtowing to the West," has now been ridiculed and replaced by an insistence on constant attention to the technical achievements of capitalism. This is, of course, a reflection of their growing self-confidence.

But they have not stopped with the revision of dogma. They have also embarked upon an extremely ambitious agricultural program. This program has two aims: first, to raise the quality of the Soviet diet to levels approximating that of the United States; and second, to increase agricultural productivity to the point where the transfer of

workers to industry can be resumed. The Soviet diet is uninspiring: it is a drag on worker incentives. A typical worker complaint when urged to increase output has been, "why work harder to earn more rubles when all they will buy is more black bread?"

Khrushchev has called upon Soviet agriculture to match the United States in per capita production of milk by 1958, and of meat by 1960-61. As a further prop to worker incentives, the Soviets have begun to make plans for easing the chronic housing shortage, a cause of widespread dissatisfaction. Current average living-sleeping space for a family of four is 13' x 13'. This is less than half the current availability in Italy, and about a third that of the United Kingdom. Khrushchev has promised about a 15 percent improvement in housing space by the end of 1960. He also has promised that the housing shortage will be overcome in the next ten or twelve years.

Whether this two-pronged attack on the labor productivity problem will succeed is not possible to predict with absolute accuracy. There is one point I want to emphasize. Both the elaborate plans for

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technological innovations in industry, and the agricultural and housing plans, need not succeed completely for the Communists to realize their goals. The establishment of a trend of improvement in living standards -- the acceptance by the workers of the idea that things are getting better and will continue to get better, may be sufficient to bring out the degree of cooperation with the regime which is necessary. This is really already the case.

The Soviet Union is also overhauling its management with a drastic program of decentralization. All but a few economic ministries in Moscow have been dismantled and replaced by regional economic councils. The day-to-day authority of the producing enterprises has been augmented. Regional economic councils have been directed to integrate economic activity in their areas to eliminate waste from cross-hauling of supplies and finished products, and to improve the balance of production throughout the country.

Another aspect of improving management is the Soviet attention to the training of scientific and technical personnel. They know that their world competitive position in the future will depend

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upon a large reserve of scientifically skilled manpower. In a technological era, they understand the importance of fundamental research. They have already made progress in the areas of mathematics, physics, and chemistry. The Soviets have also undertaken a grass roots campaign to raise the competence of its skilled and semi-skilled laboring groups. Thousands of workers in these categories are receiving technical training at evening training centers.

Now, I have been talking about the Russian economic position essentially in terms of economic aggregates. Let's take a moment to translate these aggregates into more specific terms. For example, the production of tractors in the Soviet Union last year was about two-thirds of that of the United States. Production of machine tools was greater in the Soviet Union. Or, in other words, United States output was equal to about 80 percent of that of the Soviet Union.

Steel output, while substantial, was still somewhat less than half that of the United States. However, Soviet expansion of steel output for 1956-60 is planned to be about equal in tonnage to that of United States expansion. This means that the output of the steel mill equipment industries is about the same in the two countries. Consumer goods, on the other hand, provide a startling contrast. United States automobile production was about 90 times that of the Soviet Union. Washing machine manufacture was over 50 times greater. United States radio and TV set output was about 5 times that of the Soviets. This list could be much longer, but the important thing is that the pattern is consistent. In investment goods and in producers durables, the Soviet Union is competing now on almost even terms with the United States. On the other side of the coin, in the consumer sector their performance is characteristically poor.

What does all this mean? It means that the Soviets are now in a position not only to support a mighty military apparatus, but also to launch on an increasingly active program of economic

penetration outside of the Communist Bloc. I do not propose to dwell

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on the Soviet military position -- that is outside the subject of today's discussion. However, I do wish to discuss the threat posed by the Soviet program for economic penetration of underdeveloped areas of the world.

The Communists up to now, have been successfully checked in their efforts to subvert the economies of Western Europe. They have now directed their attack to the less developed countries of the Middle East, Asia, Africa, and Latin America. Their outlay to stimulate trade and reduce the affinity of these areas toward the West, has been considerable, and the rate is increasing. In a three-year period, from late 1954 to July 1957, it totalled \$1.2 billion. This aid has been principally oriented to the Near East and Asia (Afghanistan, India, Egypt, Syria, Yugoslavia, Yemen, Burma, Cambodia, Indonesia, and Nepal. It includes Iceland.

Now, why are these countries susceptible to Soviet economic overtures? First, there is tremendous pressure for economic betterment. These countries have accepted the position that economic

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progress requires rapid industrialization. Though they generally believe in political and individual freedom, they will not remain staunchly loyal to these concepts if the price appears to be economic stagnation. Some of the underdeveloped countries of Asia, for example, have been inclined to accept the Communist line that industrialization by free enterprise methods took 150 years in western countries. They can't wait that long. Soviet propaganda, emphasizing that Russia made itself a great industrial power in one generation, is very appealing. The Soviets, of course, do not speak of the appalling cost in human suffering, of the denial of human rights, of the sharp limitations on living standards, or of the help and technological impetus they receive from the West.

From the Russian point of view, expansion of trade with Asia, particularly, makes good economic sense. The Soviets need additional raw materials because of shortages of its own production -- for example, bauxite, copper, textile fibers, rubber, and industrial diamonds. Further, and extremely important, the Soviets can readily use additional

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agricultural products which are available as export surpluses in many of the underdeveloped countries of Asia. In turn, the Soviets now can afford to export many types of industrial equipment, as well as obsolescent military equipment, in exchange for needed imports. The Communists appear to have lost the fear of economic independence through reliance on foreign sources of supply -- particularly if those sources can be controlled. The Communists apparently realize too, that this approach offers the promise of more rapid rates of their own economic growth than their traditional policy of economic autarky.

The upshot is, whether we like it or not, and most of us do not like it, we are now engaged in a conflict or competition with the Soviets in the underdeveloped areas of the world, and that economics as well as politics play a large role. Now, I do not want to leave you with the impression that I assume or estimate that the Communists will have unmitigated success. The United States is working to make these countries aware of the real objectives of the Communists in extending aid. The long-range aid programs of the

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West, while slow in maturing, are beginning to pay off. There is a steady growing exchange of students, technicians, and scholars who have already bettered relations and understandings. With time, and we hope not too late, the underdeveloped countries will become increasingly aware that the Soviets are out to exploit them; that the Soviet aim is not to help them to become self-reliant and strong, but rather to make satellites of them. They will see that the United States, on the other hand, has respect for their independence and encourages their sense of equality in world affairs.

Before closing, let me briefly recapitulate for you the salient features of the Soviet picture about which I have been talking. To continue to achieve rapid industrial development, to support its military establishment, to improve the status of its people, to support its satellites, and to carry out its programs to establish control over the underdeveloped countries of the world, the Soviets must find new resources for sustained growth. To date, Soviet growth has been facilitated by the exploitation of virgin resources, the adoption of

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western techniques, the neglect of agriculture, housing and consumer durables, and the achievement of full employment of human resources. Thus far, by giving priority to investment and curbing consumption, the Soviets have made their industrial system the second largest in the world. They are now faced with the problem of maintaining sustained growth. They are trying to accomplish this through a comprehensive program to improve efficiency and productivity, and through the training and developing of technical and scientific manpower. The grim lesson these facts show is that already the Soviets offer serious challenge to America's industrial primacy.

Maybe you have already noted that I haven't so far offered you a policy or a plan that the United States should follow to meet these general situations. Let me go a little further and say that I am not going to either. I am sticking to my role of an Intelligence Officer, which is to present the facts. It is up to the policymakers, and to you business leaders, and the public, to weigh these facts.

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with other facts and conditions known to you, and then decide for yourselves the best policies to compete with and defeat successfully the Soviet drive for world domination.

Now there may be some among you who have questions.

I will be most pleased to try to answer them within the limitations of security, of course. My colleague, 

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will assist me in these answers.

Thank you.